

Message Text

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ACTION EUR-12

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 4740
DEPARTMENT TREASURY
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USOECN ALSO FOR EMBASSY

E.O. 11652: XGDS-1
TAGS: EFIN, GW
SUBJECT: NO FURTHER STIMULATION OF GERMAN ECONOMY

1. IN CONFIDENTIAL CONVERSATIONS (PROTECT, NOFORN)
THIS WEEK ECONOMICS AND FINANCE MINISTRY POLICY LEVEL
OFFICIALS TOLD US THAT THERE IS NO CHANCE THAT THE
GOVERNMENT WILL CONSIDER ANY ADDITIONAL STIMULATIVE
MEASURES IN THE NEXT MONTH OR TWO TO OFFSET DAMPENING
EFFECTS ON ECONOMIC GROWTH OF THE DM APPRECIATION OR
OTHERWISE HELP TO INSURE REACHING THE 3.5 PERCENT
1978 REAL ECONOMIC GROWTH TARGET WHICH THEY EXPECT THE
GOVERNMENT TO FORMALLY ADOPT IN ITS ANNUAL ECONOMIC
REPORT LATER THIS MONTH AND WHICH STATE SECRETARY
SCHLECHT HAS ALREADY HINTED MAY NOT BE ACHIEVED (SEE
SEPTEL).

2. THE KEY FINANCE MINISTRY OFFICIAL TO WHOM WE
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TALKED STRESSED THE PICK UP IN ECONOMIC GROWTH IMPLIED
IN THE 3.5 PERCENT TARGET INVOLVING 4.5 TO 5.0 PERCENT
GROWTH BETWEEN THE FOURTH QUARTER OF 1977 AND THE
FOURTH QUARTER OF 1978 ASSUMING AN EVEN GROWTH PATH
THROUGHOUT THE YEAR. (COMMENT: WE WOULD GUESS THAT
EVEN IF THE 3.5 PERCENT GROWTH GOAL SHOULD BE ACHIEVED--
WHICH WE DOUBT--THE FOURTH QUARTER TO FOURTH QUARTER

GROWTH RATE MIGHT BE SOMEWHAT LOWER SINCE WE EXPECT GROWTH TO BE STRONGER DURING THE FIRST HALF AND SLOW DOWN SOMEWHAT IN THE SECOND HALF.) HE WAS UNWILLING TO CONTEMPLATE ANY FURTHER MACROECONOMIC STIMULUS IF THE ACTUAL GROWTH PATH SHOULD FALL BELOW HIS PROJECTION. HE ARGUED, ON THE ONE HAND, THE FUTILITY OF TRYING TO OVERCOME STRUCTURAL PROBLEMS WITH MACRO-STIMULUS AND THE IMPOSSIBILITY OF FURTHER INCREASES OF GOVERNMENT EXPENDITURES FOR LACK OF READY PROJECTS. ON THE OTHER HAND, HE DOUBTED IF THE GOVERNMENT COULD GET A FURTHER TAX REDUCTION THROUGH THE PARLIAMENT IN 1978 IN VIEW OF SPLITS BETWEEN THE COALITION PARTIES AS WELL AS BETWEEN THE BUNDESTAG AND THE BUNDESRAT CONCERNING SUCH REDUCTIONS.

3. ECONOMICS MINISTRY POLICY PLANNERS TOLD US THAT DESPITE THE FACT THAT THEIR MINISTRY HAD FAVORED A LARGER STIMULUS PACKAGE THAN WAS ADOPTED AND REMAINED SKEPTICAL IF 3.5 PERCENT REAL 1978 GROWTH COULD BE ACHIEVED, THEY DID NOT FAVOR ANY FURTHER ACTION IN THE NEXT 3 MONTHS OR SO. THEY ARGUED THAT A PERIOD OF CALM ON THE TAX FRONT WAS NOW NEEDED AND IN ANY CASE THE GOVERNMENT SHOULD AWAIT THE EFFECT OF THE ACTIONS IT HAD TAKEN BEFORE CONTEMPLATING ANY NEW MEASURES. EVEN IF THE ECONOMY SHOULD FAIL TO PICK UP AT ALL, THEY DID NOT SEE A POSSIBILITY FOR A SIGNIFICANT

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INCREASE IN GOVERNMENT EXPENDITURES (FOR LACK OF PROJECTS) BUT CONCEDED SOME POSSIBILITY OF TRYING FOR A QUICK 5 PERCENT TEMPORARY INCOME TAX CUT UNDER THE STABILITY AND GROWTH LAW SOMETIME IN THE SECOND QUARTER, PROVIDED THAT THIS COULD BE MANAGED POLITICALLY WITHOUT UNDUE DEBATE AND DELAY (OF WHICH THEY ARE SKEPTICAL). THEIR STRONG PERSONAL PREFERENCE, HOWEVER, WAS FOR TAKING NO FURTHER ACTION THIS YEAR AND CONCENTRATING ON GETTING A TAX RATE STRUCTURE REFORM (INVOLVING SIGNIFICANT TAX REDUCTIONS) THROUGH THE PARLIAMENT BY THIS FALL TO BECOME EFFECTIVE ON JANUARY 1, 1979. THE ONLY FURTHER ACTION ON THE EXPENDITURE SIDE WHICH THEY FAVORED IN ADDITION TO A SUPPLEMENTAL BUDGET WITH ABOUT DM 1 BILLION OF SUBSIDIES FOR COAL, STEEL AND SHIPBUILDING WAS A FEDERAL ENERGY SAVING PROGRAM TAKING THE PLACE OF THE STALLED FEDERAL/STATE JOINT PROGRAM.

STOESSEL

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